**Chapter 2: Operations Strategy and Competitiveness**

**2.1 Introductions**

To maintain a competitive position in the marketplace, a company must have a long-range plan. This plan needs to include the company’s long-term goals, an understanding of the marketplace, and a way to differentiate itself from its competitors. All other decisions made by the company must support this long-range plan. Otherwise, each person in the company would pursue goals that he or she considered important, and the company would quickly fall apart.

A successful football team is a unified group of players using their individual skills in support of a winning strategy. The same is true of a business. The long-range plan of a business, designed to provide and sustain shareholder value, is called the *business strategy***.** For a company to succeed, the business strategy must be supported by each of the individual business functions, such as *operations*, *finance*, and *marketing*.

**Business Strategy**

Defines long-rangeplan for company

**Marketing Strategy**

Defines marketing plans to support the business strategy

**Operations Strategy**

Develops a plan for the operations function to support the business strategy

**Finance Strategy**

Develops financial plansto support the business strategy

**Figure 2-1:**Relationship between the business strategy and the functional strategies

**Marketing Strategy:** Defines marketing plans to support the businessstrategy**.**

**Finance Strategy:** Develops financial plans to support the business strategy.

**Operations Strategy:** Develops plan for the operations function to support the business strategy. Operations strategyis a long-range plan for the operations function that specifies the design and use of resources to support the business strategy. Just as the players on a football team support the team’s strategy, the role of everyone in the company is to do his or her job in a way that supports the business strategy.

In today’s highly competitive, Internet-based, and global marketplace, it is important for companies to have a clear plan for achieving their goals.

**2.2 The Role and Importance of Operations Strategy**

**The Role of Operations Strategy**

Operations strategy specifies the **policies and plans** for using the organization’s resources to support its long-term competitive strategy.

Remember that the **operations function** is responsible for **managing the resources** needed to produce the company’s goods and services. **Operations strategy** is the plan that specifies the design and use of resources to support the business strategy. This includes the *location, size, and type of facilities available; worker skills and talents required; use of technology, special processes needed, special equipment; and quality control methods.* The operations strategy must be aligned with the company’s business strategy and enable the company to achieve its long-term plan.

**The Importance of Operations Strategy**

Operations strategy did not come to the forefront until the 1970s. Up to that time U.S. companies emphasized **mass production of** standard product designs. There were no serious international competitors, and U.S. companies could pretty much sell anythingthey produced. However, that changed in the 1970s and 1980s. Japanese companies beganoffering products of **superior quality at lower cost**, and U.S. companies lost marketshare to their Japanese counterparts. In an attempt to survive, many U.S. companiescopied Japanese approaches. Unfortunately, merely copying these approaches oftenproved unsuccessful; it took time to really understand Japanese approaches. It becameclear that Japanese companies were more competitive because of their **operations strategy**;that is, all their resources were specifically designed to directly support the company’soverall strategic plan.

Harvard Business School professor Michael Porter says that companies often donot understand the differences between *operational efficiency* and *strategy*. **Operational efficiency** is performing operations **tasks well**, even better than competitors.**Strategy** is a **plan for competing** in the marketplace. An analogymight be that of running a race efficiently, but it may be the wrong race. Strategy isdefining in what race you will win.

**2.3 Developing a Business Strategy**

A company’s business strategy is developed after its managers have considered manyfactors and have made some strategic decisions. These include developing an understandingof what business the company is in (the company’s ***mission***), analyzing anddeveloping an understanding of the market (***environmental scanning***), and identifyingthe company’s strengths (***core competencies***). These **three factors** are critical to the developmentof the company’s long-range plan, or business strategy. These three factors can be combined to formulatethe business strategy.

1. **Mission:** is a statement defining *what* business an organization is in, *who* its customers are, and *how* its core beliefs shape its business.The missionis astatement that **answers three** overriding questions:

* *What* business will the company be in (“selling personal computers,” “operatingan Italian restaurant”)?
* *Who* will the customers be, and what are the expected customersattributes (“homeowners,” “college graduates”)?
* *How* will the company’s basic beliefs define the business (“gives the highest customerservice,” “stresses family values”)?

The mission defines the company. In order to develop a long-term plan for a business,you must first know exactly what business you are in, what customers you areserving, and what your company’s values are.

1. **Environmental Scanning**

A second factor to consider is the external environment of the business. Environmentalscanningis the process of monitoring the external environment. This includestrends in the market,in the economic and political environment in society. Thesetrends must be analyzed to determine business **opportunities and threats**. To remain competitive,companies have to continuously monitor their environment and be prepared to changetheir business strategy, or long-range plan, in light of environmental changes.

**What Does Environmental Scanning Tell Us?** Environmental scanning allows acompany to identify *opportunities* and *threats.* For example, through environmentalscanning we could see gaps in what customers need and what competitors are doingto meet those needs. A study of these gaps could reveal an opportunity for our company,and we could design a plan to take advantage of it. On the other hand, ourcompany may currently be a leader in its industry, but environmental scanning couldreveal competitors that are meeting customer needs better-for example, by offeringa wider array of services. In this case, environmental scanning would reveal a threatand we would have to change our strategy so as not to be left behind.

**What Are Trends in the Environment?** The external business environment isalways changing. To stay ahead of the competition, a company must constantly lookout for trends or changing patterns in the environment, such as *marketplace trends*.These might include changes in customer wants and expectations, and ways in whichcompetitors are meeting those expectations.

There are many types of trends in the marketplace. For example, we are seeingchanges in the use of technology, such as point-of-sale scanners, automation,computer-assisted processing, electronic purchasing, and electronic order tracking.One rapidly growing trend is e-commerce.

In addition to market trends, environmental scanning looks at economic, political,and social trends that can affect the business. **Economic trends** include recession, inflation,interest rates, and general economic conditions. Suppose that a company is considering obtaining a loan in order to purchase a new facility. Environmental scanning could show that interest rates are particularly favorable and that this may be a goodtime to go ahead with the purchase.

**Political trends**include changes in the political climate—local, national, andinternational—that could affect a company. For example, the creation of the EuropeanUnion has had a significant impact on strategic planning for global companies such as IBM, Hewlett-Packard, and PepsiCo. Similarly, changes in trade relations withChina have opened up opportunities that were not available earlier. There has been achange in how companies view their environment, a shift from a national to a globalperspective. Companies seek customers and suppliers all over the globe. Many havechanged their strategies in order to take advantage of global opportunities, such asforming partnerships with international firms, called **strategic alliances.**

Finally, **social trends**are changes in society that can have an impact on a business.An example is the awareness of the dangers of smoking, which has made smoking lesssocially acceptable. This trend has had a huge impact on companies in the tobacco industry.In order to survive, many of these companies have changed their strategy tofocus on customers overseas where smoking is still socially acceptable, or have diversifiedinto other product lines.

1. **Core Competencies**

The third factor that helps define a business strategy is an understanding of thecompany’s strengths. These are called *core competencies***.** Core competencies are the **unique strengths of a business.**

In order to formulate along-term plan, the company’s managers must know the competencies of their organization.Core competencies could include **special skills of workers**, such as **expertise**in providing customized services or knowledge of information technology. Anotherexample might be **flexible facilities** that can handle the production of a wide array ofproducts. To be successful, a company must compete in markets where its corecompetencies will have value.

Highly successful firms develop a business strategy that takes advantage of theircore competencies or strengths. To see why it is important to use core competencies,think of a student developing plans for a successful professional career. Let’s say thatthis student is particularly good at mathematics but not as good in verbal communicationand persuasion. Taking advantage of core competencies would mean developinga career strategy in which the student’s strengths could provide an advantage,such as engineering or computer science. On the other hand, pursuing a career inmarketing would place the student at a disadvantage because of a relative lack of skillsin persuasion.

**Table 2.1:**Organizational Core Competencies

|  |  |
| --- | --- |
| **Workforce** | * Highly trained * Responsive in meeting customer needs * Flexible in performing a variety of tasks * Strong technical capability * Creative in product design |
| **Facilities** | * Flexible in producing a variety of products * Technologically advanced * An efficient distribution system |
| **Market Understanding** | * Skilled in understanding customer wants and predicting market trends |
| **Financial know-how** | * Skilled in attracting and raising capital |
| **Technology** | * Use of latest production technology * Use of information technology * Quality control techniques |

**Putting It Together**

The three inputs for business strategy are: the mission, environmental scanning, and core competencieshelp in the formulation of the business strategy.

***Environmental canning***

**Monitoring the business environment for market trends, threats, and opportunities**

***Mission***

**Statement that defines what is our business; who are our clients; and how our values define our business**

***Core Competencies***

**Unique strengths that can help us win in the market**

***BusinessStrategy***

**Defines the long-range plan for the company**

**Figure 2-2:**Three inputs in developing abusiness strategy

**2.4 Developing an Operations Strategy**

Once a business strategy has been developed, an operations strategy must be formulated.This will provide a **plan for the design** and **managemen**t of the **operations function** inways that support the business strategy. The operations strategy relates the business strategyto the operations function. It focuses on **specific capabilities of the operation** thatgive the company a **competitive edge.** These capabilities are called *competitive priorities.*

**Competitive Priorities:** Capabilities that the operations function can develop in order to give a company a competitive advantage in its market.When an organization has a unique advantage over its competitors it can be deemed to have a competitive advantage.

Michael Porter (1980) identified two basic ways of achieving competitive advantage. The first occurs when an organization is **able to deliver the same benefits as its competitors but at a lower cost**, thereby gaining a ***cost advantage***for itself. The second is when the organization **differentiatesitself** by offering **superior benefits to its customers.**

**Differentiation** will come from anything and everything that influences the **value** that customers derive from the product or service. So the operations manager has a role to play in defining everything about a product that will influence its potential value to customers. This can be **tweaking/changing** the design of the product features, influencing its convenience for customers through decisions on the location of **distribution centers or retail outlets**, or affecting how **delivery**, **installation or** repair and maintenance services are implemented.

The **differentiation** may come from achieving a **quality advantage** or through **timely**, reliable delivery or from offering a flexible performance that is extremely responsive to customer needs. Policies such as offering branded goods, making use of economies of scale, offering highly personalized procedures are commonly found in a **differentiation strategy.**

Operations managers must work closely with marketing in order to understand the competitivesituation in the company’s market before they can determine which competitivepriorities are important. There are **four** broad categories of competitive priorities:

1. **Cost:**Competing based on costmeans offering a product at a **low price** relative tothe prices of competing products. The need for this type of competition emergesfrom the business strategy. The role of the operations strategy is to develop a plan forthe use of resources to support this type of competition. Note that a low-cost strategycan result in a higher profit margin, even at a competitive price. Also, low cost doesnot imply low quality.

To develop this competitive priority, the **operations function** must focus primarilyon **cutting costs** in the system, such as costs of labor, materials, and facilities. Companiesthat compete based on cost study their operations system carefully to **eliminateall waste.** They might offer extra **training** to employees to **maximize** their productivityand minimize scrap.

Generally, companies that compete based on cost offer a narrow range ofproducts and product features, allow for little customization, and have an operations process that is designed to be as efficient as possible.

1. Applies to high volume product
2. May be limited product range with littlecustomization
3. use of automated process to reduce cost
4. Can use lower level skill
5. Probably use product focused layouts
6. Low cost does not mean

**BUSINESS STRATEGY**

**Defines the long-range plans for the company**

**OPERATIONS STRATEGY**

**Develops a plan for the operations function focusing on specific competitive priorities in order to meet the long-range plan**

**Competitive Priorities:**

**• Cost • Quality**

**• Time • Flexibility**

**DESIGN OF THE OPERATIONS FUNCTION**

Developed to focus on the identified competitive properties

**Structure:** Facilities, flow of goods, technology

**Infrastructure:** Planning & control system, workers, pay, quality

**Figure 2-3:** Operations strategy and the design of the operations function

1. **Quality:**quality has a subjectivemeaning; it depends on who is defining it. For example, to one person qualitycould mean that the product **lasts a long time,** such as with a Volvo, a car known forits longevity. To another person quality might mean **high performance**, such as aBMW. When companies focus on quality as a competitive priority, they are focusingon the dimensions of quality that are considered important by their customers.

Quality as a competitive priority has **two dimensions.**

The **first** is **high-performancedesign.** This means that the operations function will be designed to focus on aspectsof quality such as superior features, close tolerances, high durability, and excellentcustomer service.

The **second** dimension is **goods and services consistency,**which measureshow often the goods or services meet the **exact design specifications.** Companies that compete on quality must delivernot only high-performance design but goods and services consistency as well.A company that competes on this dimension needs to implement quality in everyarea of the organization. One of the first aspects that need to be addressed is **productdesign quality***,* which involves making sure the product meets the requirements of thecustomer. A second aspect is **process quality,**which deals with designing a processto produce error-free products. This includes focusing on equipment, workers, materials,and every other aspect of the operation to make sure it works the way it issupposed to.

1. **Time:** It is a competitive priority focusing on **speed and on-time delivery**. Companies in all industries are competing to deliver high-quality products in as **short a time** as possible. Today’s customers don’t want to wait, and companies that can meet their need for fast service are becoming leaders in their industries.

**Competing on time**

1. rapid delivery
2. on time delivery

**4. Flexibility**: As a company’s environment changes rapidly, including **customer**needs and expectations, the ability to readily accommodate these changes can be awinning strategy. This is flexibility. There are **two dimensions** of flexibility.

**Product *flexibility:*** is theability of company to offer a **wide variety** of goods or services and customize them to the uniqueneeds of clients. A flexible system can quickly add newproducts that may be important to customers or easily drop a product that is not doingwell.

**Volume flexibility:**

Another aspect of flexibility is the **ability** to rapidly increase or decrease theamount produced in order to accommodate changes in the **demand.** This is called**.**

**2.5 Order winning and qualifying factors**

The environmental factors can be distinguished as ‘order winning’ and ‘qualifying factors’. Characteristics such as price, delivery reliability, delivery speed, and quality can be order qualifiers or order winners. **Orderwinners:**are those characteristics of an organization’s goods or services that cause them to be perceived as **better than the competitors**.As the name suggests, order winning factors contribute directlyand in a significant manner to the winning of business.They will be the factors identifiedby **customers as the reason they made a purchase.** So improving performancearound the order winning factors is likely to result in improving the organization’sopportunity of winning more business.

**Order qualifiers:** are those characteristics that potential customers perceive as **minimum standards** of acceptability for a product to be considered for purchase. Qualifying factors perform an important function,like the **hygiene factors** in Herzberg’s motivation model. They **may not be thecrucial** determinants of success but they have to be there just for the organization to beconsidered by the customer. Performance **below** such a qualifying level could **disqualify**the company from being considered.

**Order winning objectives**

1. Provide a crucial advantage with customers

2. Provide an important advantage with most customers

3. Provide a useful advantage with most customers

**Qualifying objectives:**

1. Need to be at least up to good industry standard;

2. Need to be around the median industry standard;

3. Need to be within close range of the rest of the industry;

**Less important objectives:**

1. Do not usually come into customers' consideration,

2. Very rarely come into customers' considerations;

3. Never come into consideration by customers and are never likely to do so.

In the given market sector, or for a given product group, is our achieved performance in each of the performance objectives:

**Better than competitors:**

1. Consistently considerably better than our nearest competitor;

2. Consistently clearly better than our nearest competitor;

3. Marginally better than our nearest competitor;

**The same as competitors:**

1. Often marginally better than most competitors;

2. About the same as most competitors;

3. Often within striking distance of the main competitors;

**Worse than competitors:**

1. Usually marginally worse than most competitors;

2. Usually worse than most competitors;

3. Consistently worse than most competitors?

* 1. **Service and Manufacturing Strategies**
     1. **Service Strategies are: are Competitive priorities**providing a basis for design of processes.This approach also enables organizations to offer the right services for customers and serve them at the right time.

Strategies used for processes devoted to the delivery of services are:

1. **Standardized-services Strategy**: is used by processes that provide services with **little variety** in high volumes.

* Competitive priorities are consistent quality, on-time delivery, and low cost.

1. **Assemble-to-Order Strategy:** is used by processes to produce a set of standardized services and processes devoted to assembling standardized offerings for a **specific customer’s needs.**

* The assembly process must be flexible so that the correct package can be assembled for a customer.
* Typical competitive priorities are customization and fast delivery.

1. **Customized-Service Strategy:** is used by processes designed to provide individualized services.

* Enables the production of high variety of customized services while providing reasonable utilization of the processes.
* Typical competitive priorities include high performance design and customization
* e.g., barber shops and beauty salons, appliance repair shops, and interior decorating services.
  + 1. **Manufacturing Strategies**
* Differ from service strategies because their abilities to use inventories.

1. **Make-to-stock strategy**: is used by manufacturing firms that **hold items in stock** for immediate delivery.MTS (Make to Stock) means to manufacture products for **stock based on demand forecasts**, which can be regarded as push-type production. MTS has been required to prevent opportunity loss due to stock out and minimize excess inventory using accurate forecasts. In the industrialized society of mass production and mass marketing, this forecast mass production urged standardization and efficient business management such as cost reduction.

* Is feasible for standardized products with high volumes and reasonably accurate forecasts.
* The term mass production is often used to define firms using make-to-stock strategy.

**B) Assemble-to-Order Strategy:** Assembling after receiving a customer's orders is "ATO (Assemble To Order)" and starting with development designing is "ETO (Engineer To Order)". Construction by general contractors and plant construction by engineering companies are categorized as ETO.

* Typical competitive priorities are customization and fast delivery.
* Involves assembly processes and fabrication processes.
* Because they are devoted to manufacturing standardized components and assemblies in high volumes, the fabrication processes focus on creating appropriate amounts of inventories for assembly process.
* Once the specific order from the customer is received, the assembly processes create the product from the standardize components and assemblies produced by the fabrication process.
* The fabrication processes should be efficient to keep costs low, while the assembly processes should be flexible to produce the varied products demanded by the customers.

**C) Make-to-Order Strategy**: MTO (Make to Order) is a manufacturing process in which manufacturing **starts only after a customer's order** is received. Forms of MTO vary, for example, an assembly process starts when demand actually occurs or manufacturing starts with development planning.

* This strategy provides high degree of customization, which is a major competitive priority for these manufacturers.
* Becausemost products, components, and assemblies are custom-made, the manufacturing process must be flexible to accommodate variety.

**Basic concepts:**

**Vision:** A vision is a clear, comprehensive ‘photograph’ of an organization at some point in the future. It provides direction because it describes what the organization needs to be like, to be successful within the future.  Vision involves the foresight needed to acquire the necessary expertise to organize existing resources, to accomplish the desired results.

* Answers the question: “What organization do we want to becomein future?”
* is how you see yourself
* embodied by its ends and measured by results
* Persisting till the mission is attained

**Mission:** is the process of defining objectives and developing strategies to reach those objectives.

* Answers the question: What is the purpose of the existence of the organization?
* Is how you reach the vision
* Should state your purpose
* Should reflect the reason that your business opens its doors every day.
* The passion behind the company
* Putting action behind the decision
* A mission statement defines the core purpose of the organization-why it exists.

**Goals:** are general directions, somewhat nebulous that are not specific enough to be measured. Think of the word "go." It has no end.Goal is a state of affairs, or a state of concrete activity, which an organization or system wishes to achieve or obtain.

* Goals are broad; objectives are narrow.
* Goals are general intentions; objectives are precise.
* Goals are abstract; objectives are concrete.
* Goals are targets; objectivesdecisions to go for the target.

**Objectives:** are specific and measurable. But most of all, they can be measured. They are concise. They are specific. Objective is the plan, to involve and implement specific actions which must be taken to close the gap between the current realities and the ideal state.

Objectives are: SMART

* Specific
* Measurable
* Achievable
* Relevant
* Time-based

**Examples of Strategic Objectives:**

1. **Financial Goals**

* **Proctor and Gamble**
* **Increase sales growth 6% to 8% and accelerate core net earnings growth to 13% to 15% per share in each of the next five years.**

**Strategy**: The process of determining appropriate courses of action for achieving organizational objectives. Strategy involves the “big picture” – the overall plan, how the company will achieve organizational goals and objectives.

* Immutable/unchangeable; it is a Big Picture look at a problem that focuses upon the entire forest and not individual trees.
* A long term plan of action designed to achieve a particular goal

**Tactics:** Tactics are activities specifically created and selected to reach specific and measurable objectives. Tactics are the actual ways in which the strategies are executed.

* Are the set of actions taken to fulfill a strategy

*Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.*- Sun Tzu (Chinese General, circa 500 BC)

**Values:** a value is that which we believe is good. Our values are our enduring beliefs that some ways of acting, some ways of being or some things are personally or socially preferable to other modes of conduct, actions or things.

* Provides the individual and the organization with norms to guide their work.